

FY 2024

City Manager's Recommended Budget

City of Fredericksburg

March 21, 2023



City of Fredericksburg, VA
Recommended Budget
Fiscal Year 2024



Agenda

FY 2024 Recommended Budget

- Budget Drivers
- Revenue
 - Real Estate Tax, Personal Property Tax, Other Local Taxes
 - State Budget
- Personnel
 - New Positions and Compensation
- Inflation and Operating Expenditures
- Debt Service
- Fredericksburg City Schools Approved Budget
- Next steps and upcoming budget meetings

DEBT SERVICE

- \$11,931,644 Total General Fund Transfer to Debt Funds
- \$4,800,247 General Government Debt
- \$7,131,397 School Debt

INFLATION

- Continued inflation on goods, services, and impact to capital projects

FY 2024 Budget Drivers

ECONOMY

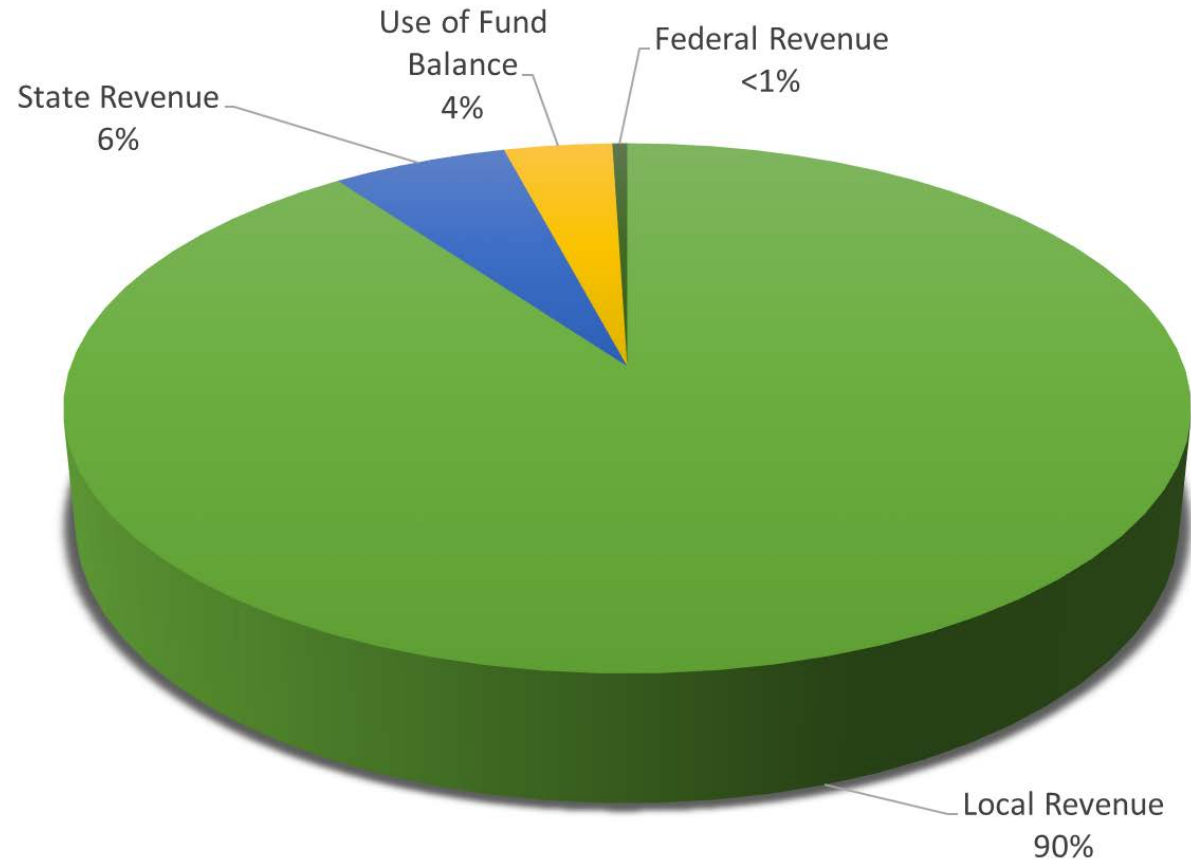
- Potential for a mild recession
- Post-pandemic “new norms”
- End of Federal Stimulus funding

COMPENSATION

- Recruitment and Retention
- Compensation related to wage pressures in the market


\$120.5 General Fund Revenue Forecast

- \$108.9 million local
- \$4.4 million use of fund balance
- \$7.1 million state
- \$110,000 federal




Real Estate revenue projections process

Use previous year's land book and analyze abatements and assessments posted during year.



Review both residential and commercial growth that is already approved and under construction.



Review residential and commercial growth that is to occur during FY 2024 and the timing of estimated completion.

Real Estate Taxes

- Proposed 2 cent rate increase from \$0.86 to \$0.88/\$100 valuation which is 2.5% growth
- Estimated FY 2024 revenue generated is approximately **\$915,000**
- The following chart shows the impacts to a homeowner on an annual basis:

Value of Property	Annual Taxes at current rate \$0.86	Annual Taxes at recommended rate \$0.88	Annual increase
\$200,000	\$1,720	\$1,760	\$40
\$250,000	\$2,150	\$2,200	\$50
\$300,000	\$2,580	\$2,640	\$60
\$350,000	\$3,010	\$3,080	\$70
\$400,000	\$3,440	\$3,520	\$80
\$450,000	\$3,870	\$3,960	\$90
\$500,000	\$4,300	\$4,400	\$100
\$550,000	\$4,730	\$4,840	\$110
\$600,000	\$5,160	\$5,280	\$120
\$650,000	\$5,590	\$5,720	\$130
\$700,000	\$6,020	\$6,160	\$140

Elderly Tax Relief

To be eligible in the City:

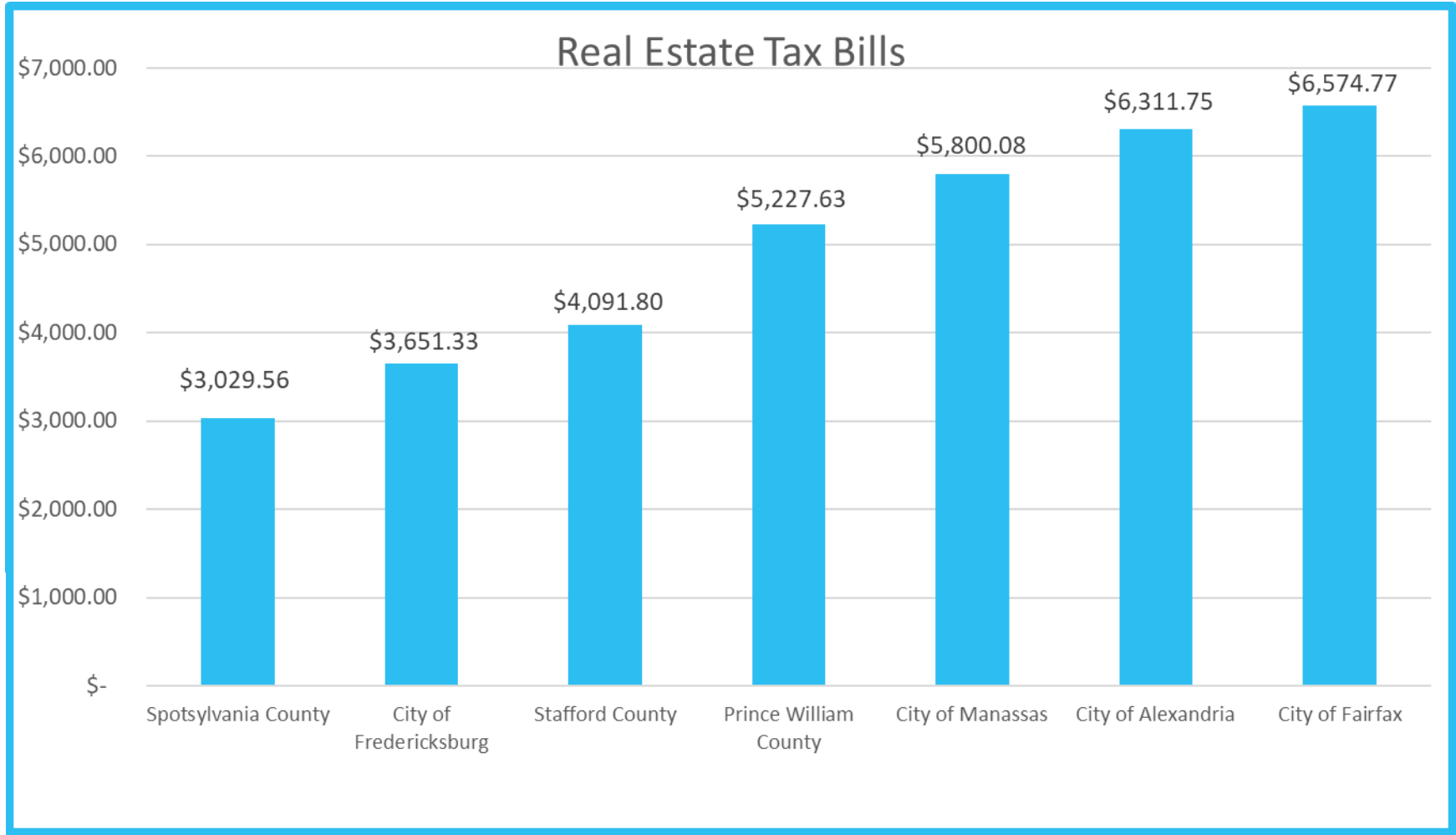
- The home must be at least partially owned by the tax relief applicant.
- The applicant must be age 65 or older by June 30th or rated 100% disabled by the Social Security Administration.
- Income from all sources (all individuals living full time in the home) must not exceed \$50,000.
- The total net worth of all related individuals in the household cannot exceed \$300,000. The value of the house in which the applicant resides is not included in this figure.
- As shown in the chart, the City is in a favorable position in relation to our neighboring jurisdictions. The City Manager has included \$50,000 in the Recommended FY 2024 budget for a future conversation on how we can continue to strengthen the program.

Real Estate Tax Relief Program Comparison					
Compiled on 1/20/23					
Locality	Age as of January 1 each year which exemption is applied or permanently and totally disabled.	Gross Household Income Limit	Gross Net Worth		Exemption Amount
			Net Worth Limit	Excludes the dwelling and up to the acreage listed	
Caroline	65	\$40,000	\$85,000	10	\$1,000.00
Culpeper	65	\$50,000	\$200,000	10	% Basis
Fredericksburg	65	\$50,000	\$300,000	(lot)	% basis with maximum of \$3,000
King George	65	\$40,000	\$60,000	5	100% exemption with no maximum
Louisa	65	\$40,000	\$200,000	10	% basis with maximum of \$2,000
Orange	65	\$50,000	\$120,000	2	% Basis
Spotsylvania	65	\$50,000	\$200,000	10	\$1,500.00
Stafford	65	\$35,000	\$400,000	20	% Basis

Source: Spotsylvania County website – Budget Document for FY 2024

Real Estate Tax Bills in other communities (based off of the information listed below)

- Value of Real Estate is the median price for sold homes in Calendar Year 2022
- Tax Rate is based off of rate applicable during that period
- Does not include any specific special district additional tax rates



	RE Tax Rate per \$100
Spotsylvania County	\$ 0.7377
City of Fredericksburg	\$ 0.8600
Stafford County	\$ 0.8500
Prince William County	\$ 1.0300
City of Manassas	\$ 1.3420
City of Alexandria	\$ 1.1000
City of Fairfax	\$ 1.0100

Source: Northern Virginia Association of Realtors, locality websites

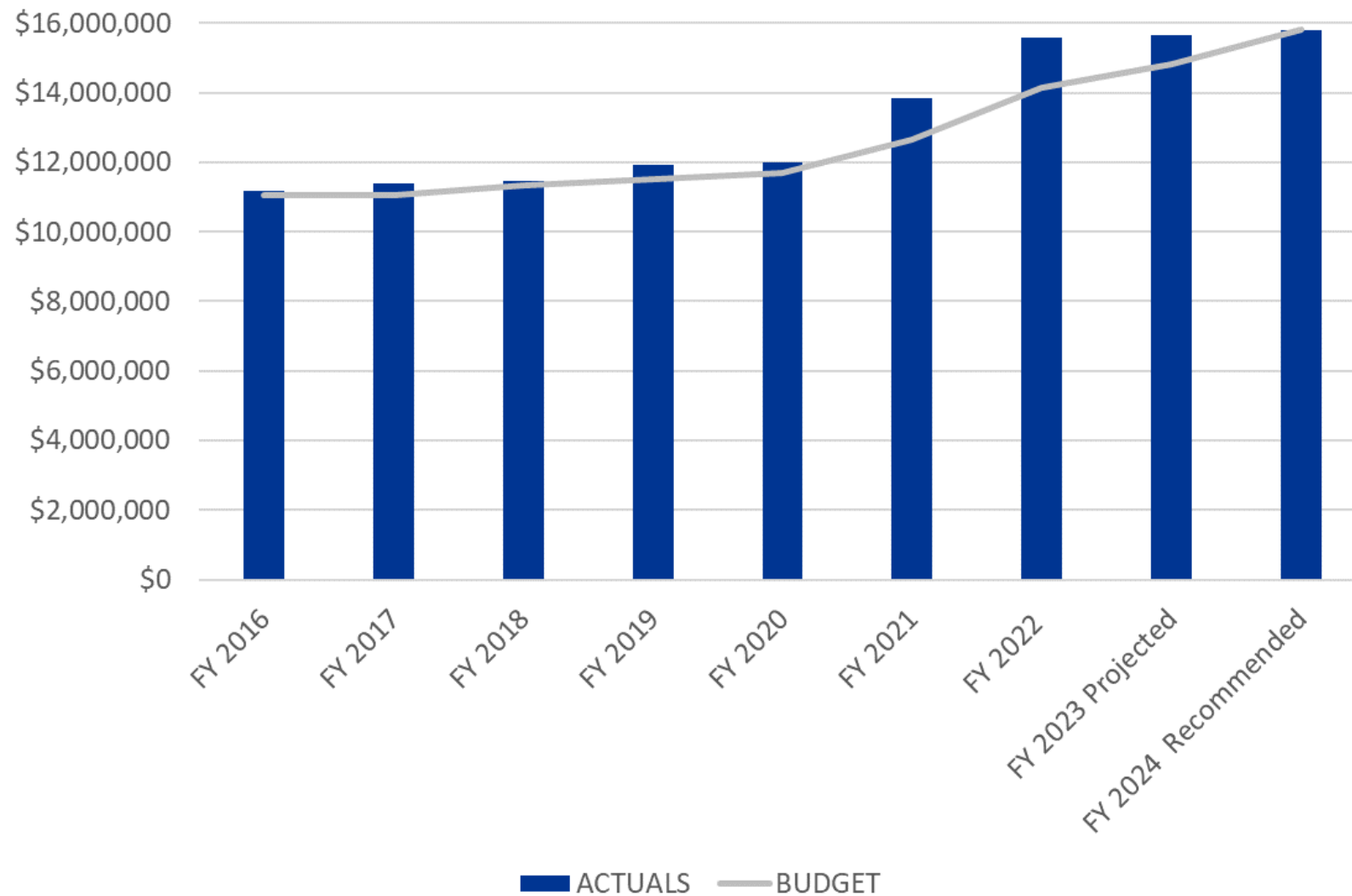
Personal Property Tax

- The FY 2024 Recommended Budget is \$12.1 million. This is based on the current Personal Property book produced by the Commissioner of Revenue plus projected growth for the number of vehicles in the City during the upcoming fiscal year.
- It does not include any adjustments based off of the valuation of the assessments. The used car market has seen large volatility in the values since the pandemic.
- City Council approved a “normalized rate” of \$2.95 per \$100 of value for most privately owned vehicles last year based off the unprecedented increase in vehicles values. The previous rate was \$3.40 per \$100 of value.
- City staff is recommending that we reevaluate the rate later in March when the Commissioner of Revenue provides the values. This will allow Council to adjust the rate accordingly to account for any fluctuations in values. The information is unknown at this time but reports such as Edmunds.com has projected a 5%-15% decline in the values.

Sales Tax

- The City is seeing higher sales tax revenue receipts.
- The FY 2023 projection for collections is \$15.7 million.
- The FY 2024 Recommended Budget is \$15.8 million which is a .94% growth over the FY 2023 projection.
- Most economists are forecasting inflation on goods to last until approximately 2025 and most prices will normalize and not see large declines.

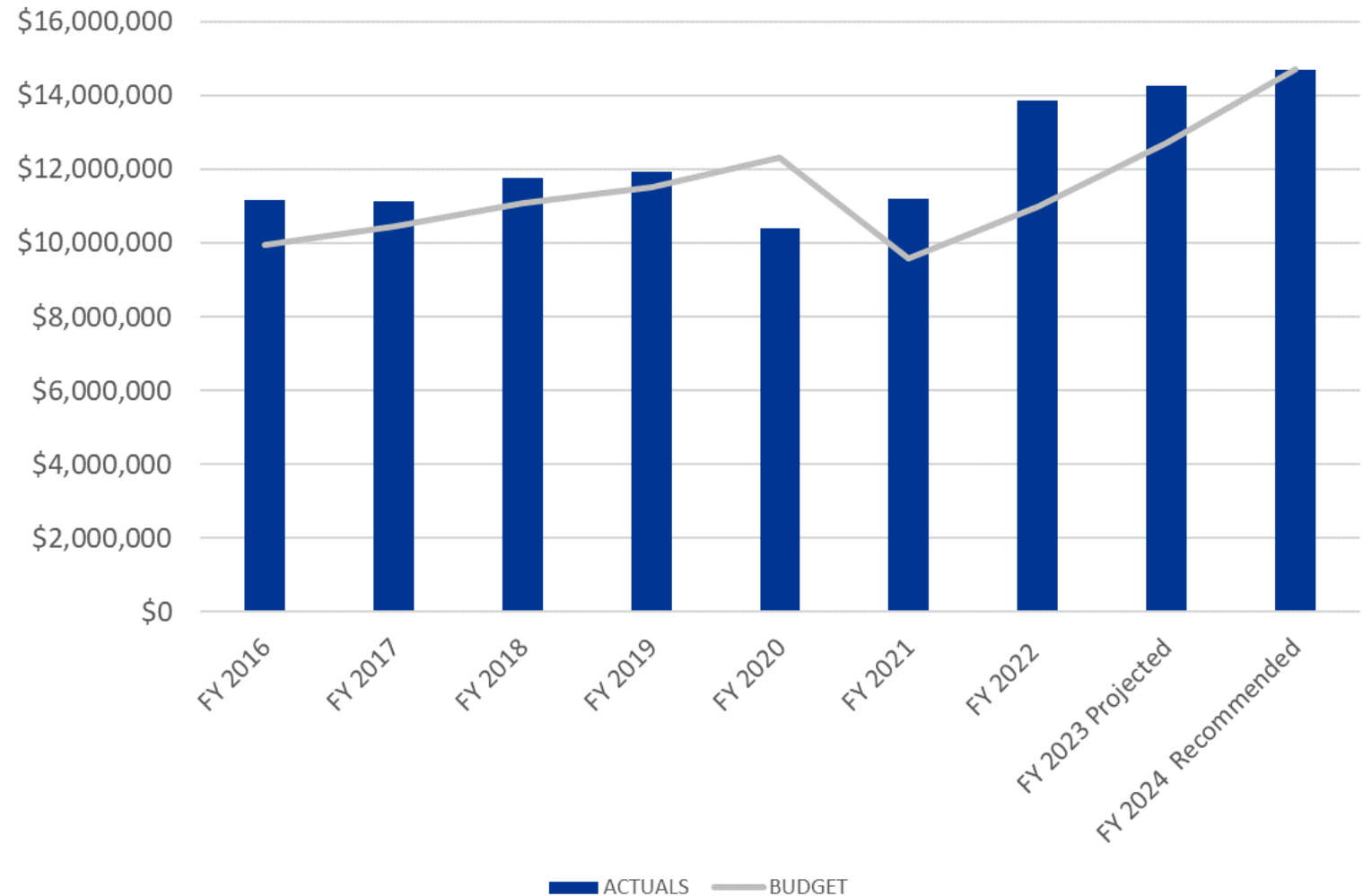
Sales Tax Budget to Actuals



Meals Tax

- The FY 2023 projection for collections is \$14.3 million.
- The FY 2024 Recommended Budget is \$14.7 million which is a 3% growth over the FY 2023 projection.
- There is a projection of what any new restaurants within the City will generate in Meals Tax collections during FY 2024 included in the Recommended Budget.

Meals Tax Budget to Actuals



Hotel Lodging Tax

- The City currently receives 6% lodging tax on hotel stays within the City.
- The Recommended Budget includes a proposed rate increase to 8%, which will generate approximately an additional \$560,000.
- The FY 2023 projection for collections is \$1.71 million.
- The FY 2024 Recommended Budget is \$1.76 million prior to the rate increase, which is a 3% growth over the FY 2023 projections. There are several new hotels expected to open in the upcoming months within the City. The total FY 2024 Budget with the proposed 2% rate increase is \$2.3 million.
- The EDA has sent a letter of support and would like a portion of those funds to go towards the Fredericksburg Opportunity Fund to support the increased pursuit of Sports Tourism. The FY 2024 budget includes a transfer to the EDA in the amount of \$100,000 of available funding in the Opportunity Fund for this purpose. Going forward, the City will analyze the impact the rate increase has had on the revenue source and make further recommendations.

Hotel Lodging Tax

- The following chart shows the lodging taxes charged by other Virginia Cities. As shown, the City has lower rates than most of it's peer communities.



City	Lodging Tax Rate	Notes
Martinsville	2.0%	
Fairfax	4.0%	
Manassas	5.0%	
Williamsburg	5.0%	Also \$2 per room-night
Buena Vista	6.0%	
Covington	6.0%	
Fredericksburg	6.0%	
Norton	6.0%	
Waynesboro	6.0%	
Winchester	6.0%	
Lynchburg	6.5%	Also \$1 per room-night
Staunton	6.7%	
Harrisonburg	7.0%	
Roanoke	8.0%	
Charlottesville	8.0%	
Chesapeake	8.0%	Also \$1 per room-night
Colonial Heights	8.0%	
Danville	8.0%	Also \$2 per room-night
Franklin	8.0%	

State Revenue

- The State adjourned on February 25, 2023 without resolving differences between the House and Senate on revisions to the biennium budget. They instead ended with a “skinny budget,” which means very minimal changes to the original budget presented. The biggest item affecting local governments includes a “fix” for the calculation tool error made on the Department of Education template.
- Governor Youngkin said Virginia expects an estimated \$3.6 billion in excess revenue during the current fiscal year. However, the House and Senate have not agreed on a plan for how to deal with those funds.
- The School Construction funding from the State is still an unknown at this time. The current financial stack for the funding of the new middle school includes \$7 million from this source. The City does not have clarity if they are eligible to apply for 10% or 20% of construction costs.
- The latest information the City has received doesn’t expect any further updates until at least April 12th when they reconvene or at the latest June. City Staff continues to monitor the activity daily and weekly for updates as information becomes available.

Personnel

New Positions included in the Recommended FY 2024 budget:

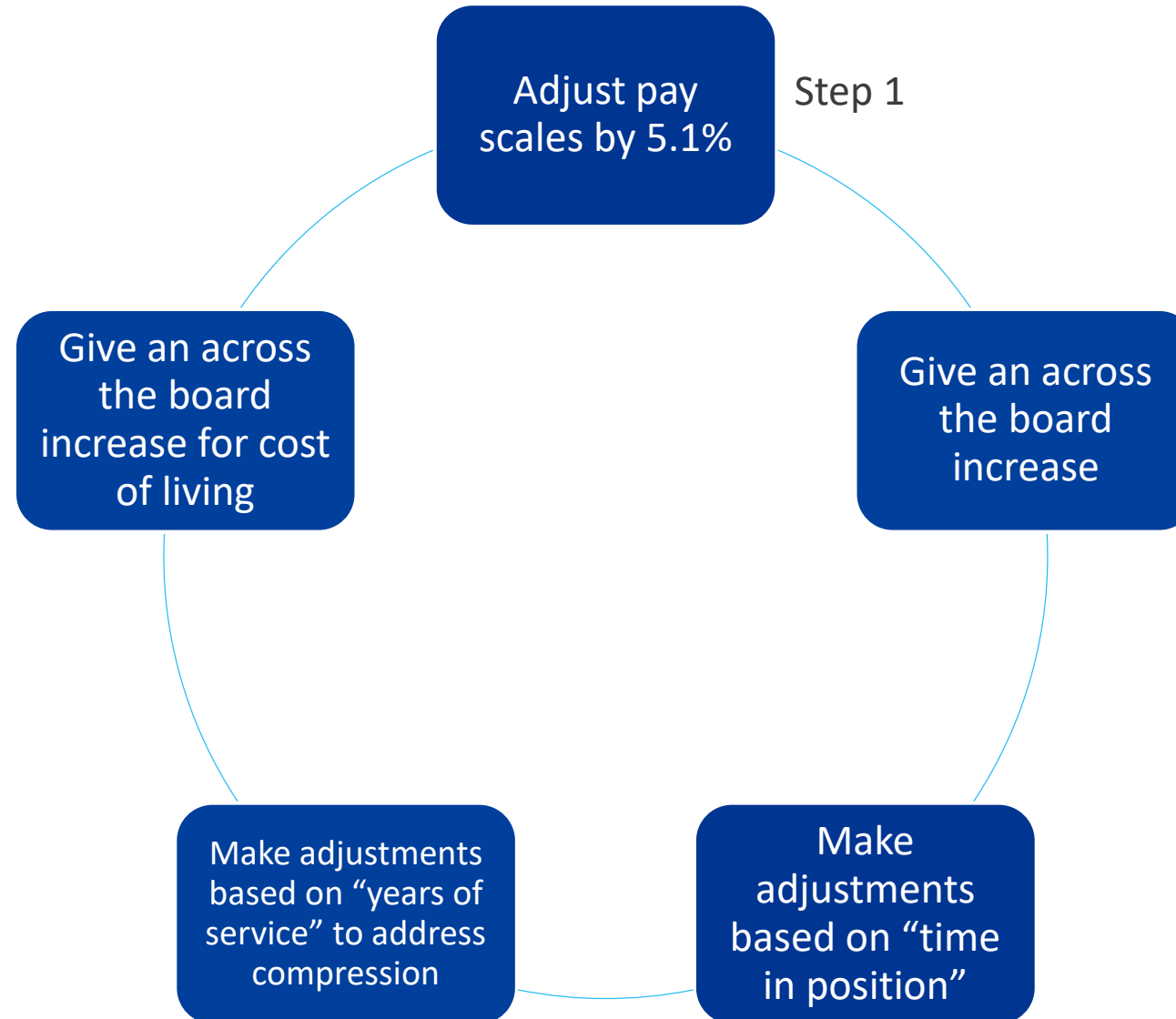
<u>GENERAL FUND</u>	
Community Planning/Building	Building Inspector II (1/2 year funding)
Fire	Battalion Chief/Training & Special Operations
Parks and Recreation	Maintenance Superintendent (1/2 year funding)
Police	Police Officer (1/2 year funding)
Police	Deputy Police Chief
<u>ALL OTHER FUNDS</u>	
Social Services	Family Services Specialist (convert PT to FT)
Social Services	Human Services Aide II
Social Services	Family Services Specialist
Transit	Mechanic
Transit	Dispatcher
Transit	Customer Service Specialist (convert PT to FT)
Transit	Admin Support Specialist II

Note: A PT to FT conversion for IT is also included in the FY 2024 Budget. This is for an Admin Support Specialist IV.

Classification/Compensation Study

- Based on determinations derived from the Bolton Inc. Classification and Compensation Study, the FY 2024 Recommended Budget includes a proposed plan to increase employees compensation between 5% and 10% of their current salaries. The average increase is 7.14%.
- The proposal in the Recommended Budget includes a multi-step process to address employee compensation changes.
- Bolton Inc. also reviewed the City's benefit package and did not recommend any changes at this time due to our benefits being generally like the market studied.
- Compensation remains an ongoing process and the current labor market is rapidly changing. The City will continue to work on policies and procedures for administration in the future.

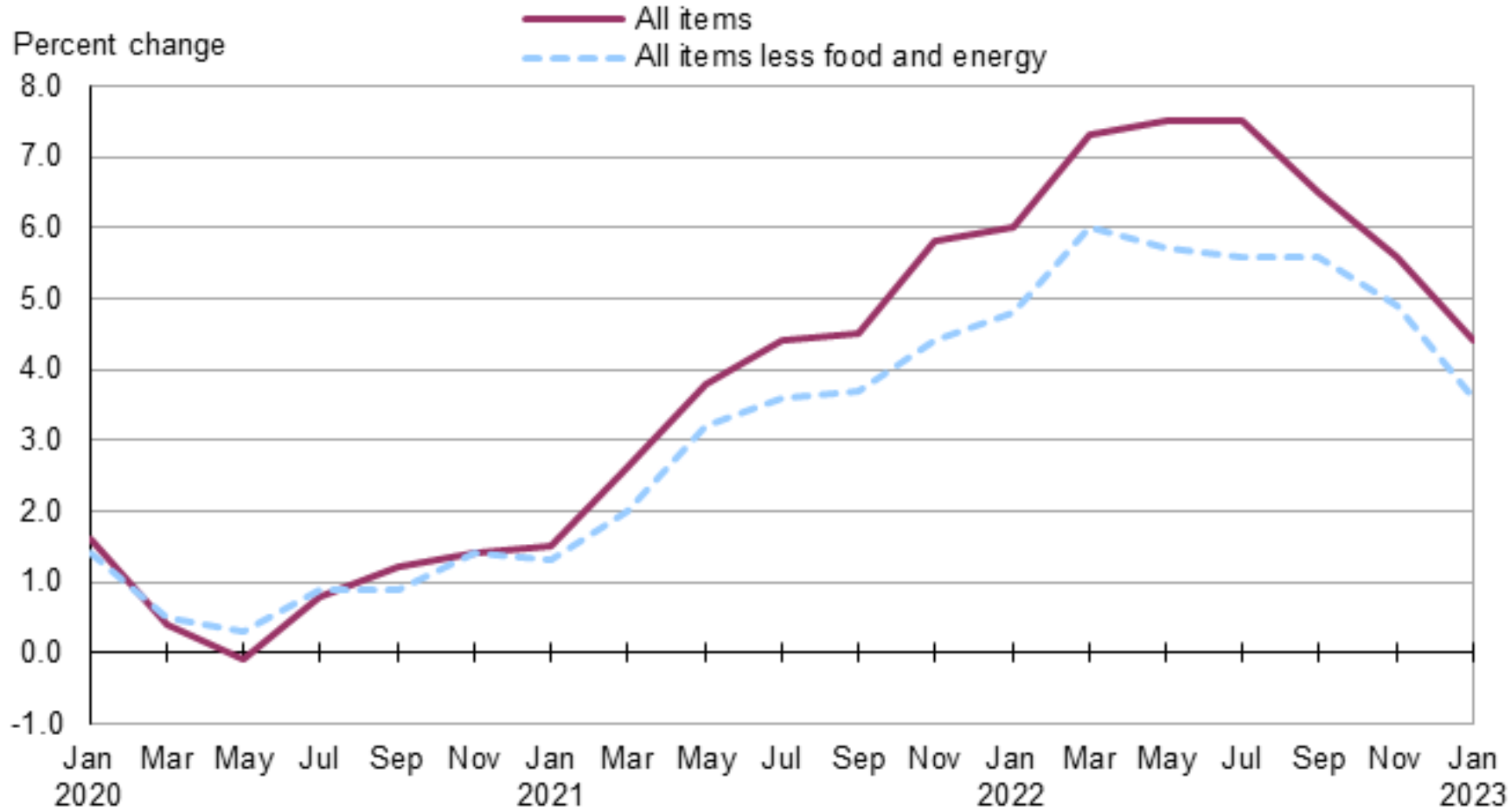
Classification/Compensation Study Application Steps



Inflation

- The City continues to see inflation impact goods and services we purchase.
- Inflation growth has slowed, but the Feds believe they will need to continue to raise interest rates to control inflation.
- The cost of goods are expected to normalize but not see significant declines.
- There is an expectation by economists that inflation pressures will continue through 2025.
- The charts on the next few slides detail some of the inflation data.

Chart 1. Over-the-year percent change in CPI-U, Washington-Arlington-Alexandria, DC-VA-MD-WV, January 2020–January 2023

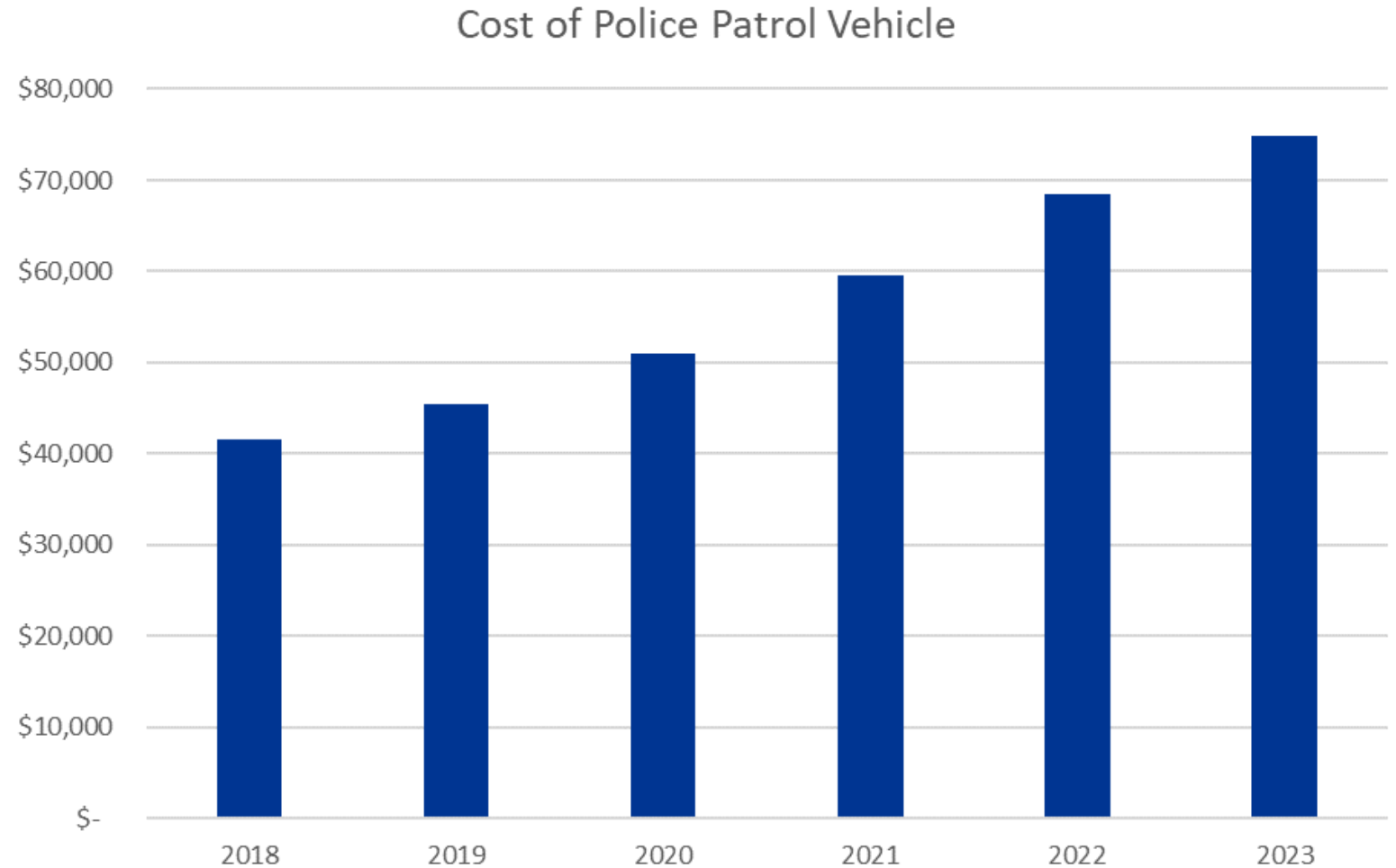


Source: U.S. Bureau of Labor Statistics.

Note: CPI-U is Consumer Price Index for all Urban Consumers

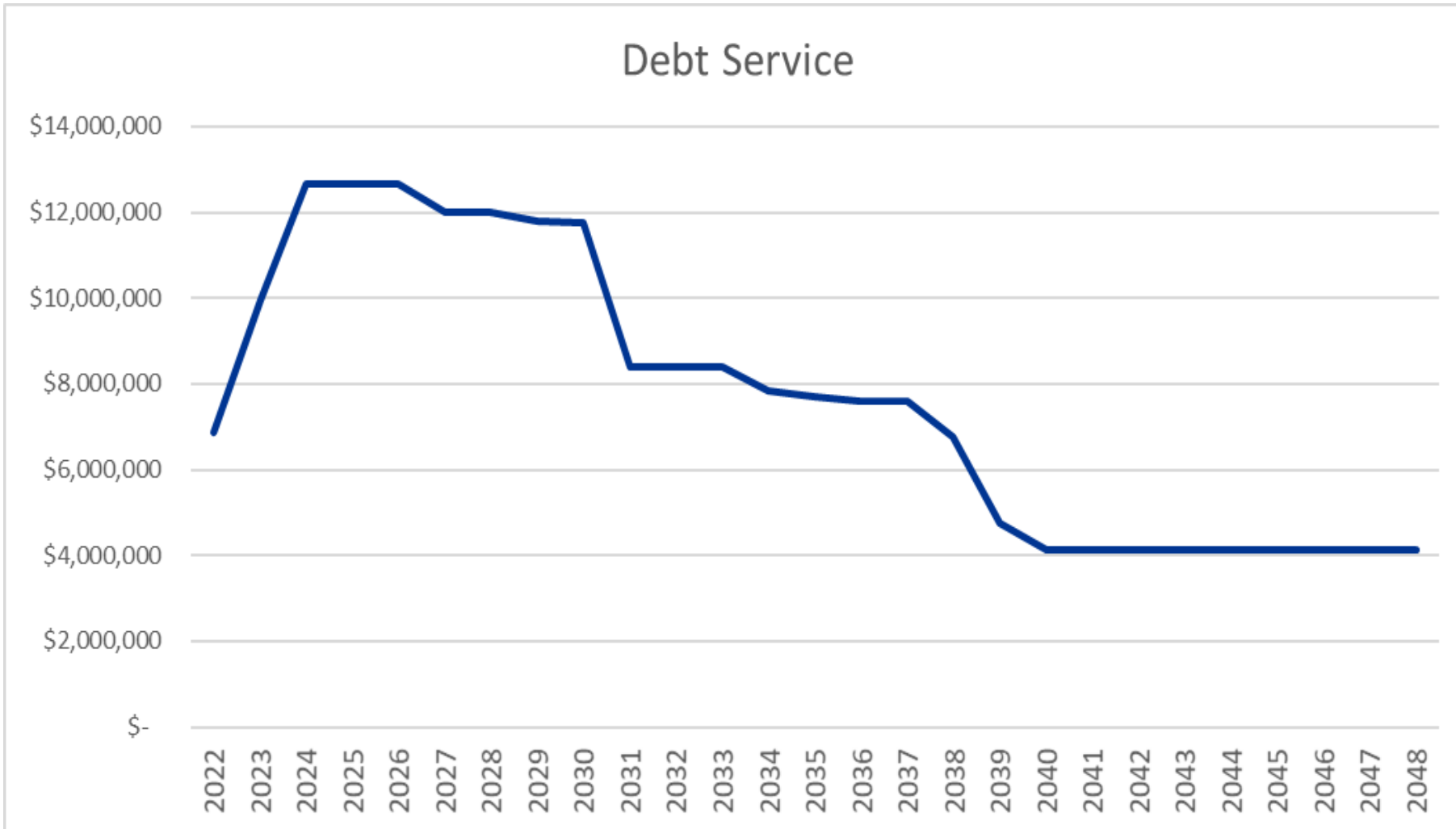
Inflation

- The cost of a Police patrol vehicle has increased from \$41,635 in FY 2018 to \$74,950 in FY 2023.
- In FY 2021 the City did start purchasing Hybrid models which were at higher cost.



Source Fredericksburg City Police Department

Debt Service



- The City issued debt in December of 2022 for the new middle school, fire station design, and stormwater projects with a very favorable interest rate of 3.839%
- The FY 2023 budget included one-half year of payments for the debt service. Due to the timing of issuance, all of those funds were not utilized. The City has put those funds in a reserve in the Debt Service Fund and will use those in both FY24 and FY25 to offset the increase. It is approximately \$518,000 each year.
- The FY 2024 budget includes a full year of debt service which is shown in the chart.

FCPS FY 2024 School Board Approved Budget:

Operating Fund Summary

Operating Fund	Adopted FY2022	Revised FY2022	Actual FY2022	Adopted FY2023	Proposed FY2024	Percent of Budget
Revenues (Source of Funds)						
Local Revenue	\$ 386,448	\$ 1,107,144	\$ 321,910	\$ 504,009	\$ 572,075	1.00%
State Revenue	19,079,419	20,423,323	19,129,048	21,873,993	23,896,631	41.96%
General Fund Transfers	30,049,266	30,049,266	30,049,266	30,500,000	31,234,500	54.84%
Use of Fund Balance	1,000,000	-	-	1,000,000	1,250,000	2.19%
Total Operating Fund Revenue	\$ 50,515,133	\$ 51,579,733	\$ 49,500,224	\$ 53,878,002	\$ 56,953,206	100.00%
Expenditures (Use of Funds)						
Human Capital	\$ 44,094,993	\$ 44,715,096	\$ 42,268,914	\$ 47,572,293	\$ 49,550,058	87.00%
Professional Services	1,531,400	2,025,082	1,902,609	1,682,125	2,091,934	3.67%
Maintenance and Repairs	2,092,709	1,931,512	1,874,264	1,967,664	1,864,203	3.27%
Supplies	1,812,431	1,875,967	1,613,814	1,476,120	1,879,410	3.30%
Capital Assets and Other	983,600	1,032,076	917,580	1,179,800	1,567,600	2.75%
Total Operating Fund Expenditures	\$ 50,515,133	\$ 51,579,733	\$ 48,577,181	\$ 53,878,002	\$ 56,953,206	100.00%

Upcoming Budget Meetings

3/21/23	6:00 pm	Work Session: FY 2024 Budget Discussion	Budget Introduction and Overview –Preliminary Discussion of Tax Rates and Other Fees
3/28/23	5:30 pm	Work Session: FY 2024 Budget Discussion	Water and Wastewater Budget Discussion Decisions needed on Tax Rates and Other Fees for advertisement
4/4/23	6:00 pm	Joint Work Session with Schools on FY 2024 Budget	Joint Meeting with FCPS, CIP Discussion, and possible Personal Property Tax Rate Discussion
4/11/23	5:30 pm	Work Session: FY 2024 Budget Discussion	HR – Personnel/Health Insurance City Council Propositions/Discussion
4/18/23	6:00 pm 7:00 pm	Work Session: FY 2024 Budget Discussion FY 2024 Budget Public Hearing	City Council Propositions/Discussion
4/25/23	5:30 pm 7:30 pm	Work Session: FY 2024 Budget Discussion Regular Session – First Reading on the FY 2024 Budget	Budget Discussion
5/9/23	7:30 pm	Regular Session – Second Reading on the FY 2024 Budget	

Thank you

Questions?



City of Fredericksburg, VA
Recommended Budget
Fiscal Year 2024

FY 2024 Recommended Wastewater and Water Funds

Water Fund - Total FY 2024 Recommended Budget \$9,154,532

Wastewater Fund - Total FY 2024 Recommended Budget \$10,390,042

- There is a proposed 10% rate increase in the Recommended FY 2024 budget for both Water and Wastewater

Budget Drivers:

- New Debt Service – Water Meters, Sewer Conveyance Projects, New WWTP
- Capital Project costs
- Inflation on goods
- Compensation